STRICTLY CONFIDENTIAL (FR) CLASS I-FOMC

Material for

Staff Presentation to the Federal Open Market Committee

February 2, 1993

POLICY ASSUMPTIONS

Federal funds rate remains close to 3 percent, with upward tilt perhaps emerging sometime in 1994.

- Real funds rate relatively low at present.
- Anticipated gradual easing of unusual loan supply constraints is effectively a financial stimulus.

Fiscal policy is modestly restrictive through 1994, in line with 1990 budget agreement restraints.

- Have assumed neither near-term stimulus nor major longer-term deficit-reduction plan.
- Implicit Greenbook assumption is that there would be continuing efforts in out-years to chip away at structural deficit.

FINANCIAL IMPLICATIONS

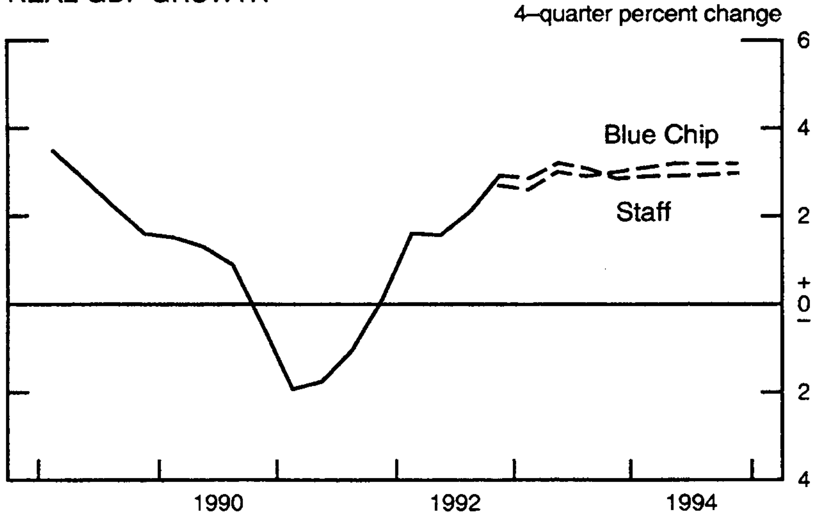
Long-term interest rates drift downward, as short-term interest rates and inflation remain low.

Exchange-value of the dollar tends to rise, as foreign interest rates fall relative to the U.S. rates.

Chart 2

Forecast Summary

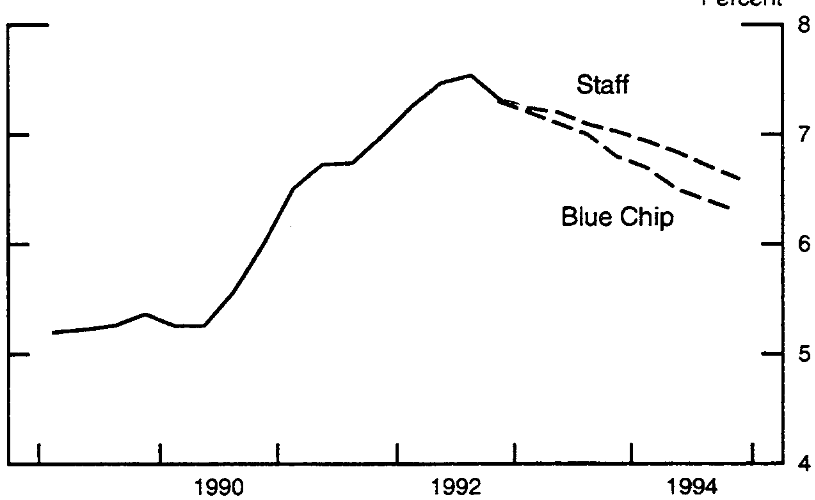
REAL GDP GROWTH



GDP GROWTH

Percent change, Q4 to Q4	
1989	1.5
1990	–.5
1991	.1
1992	2.9
1993	2.8
1994	3.0

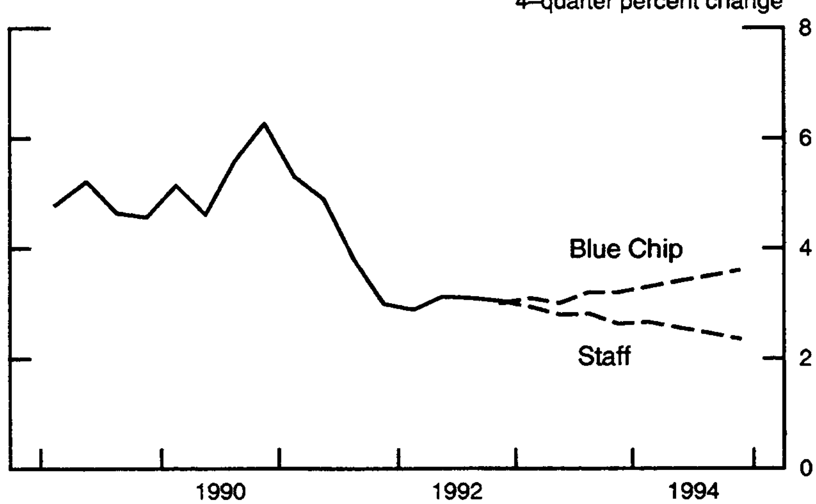
CIVILIAN UNEMPLOYMENT RATE



UNEMPLOYMENT RATE

Percent	
1989	5.4
1990	6.0
1991	7.0
1992	7.3
1993	7.0
1994	6.6

CONSUMER PRICE INDEX



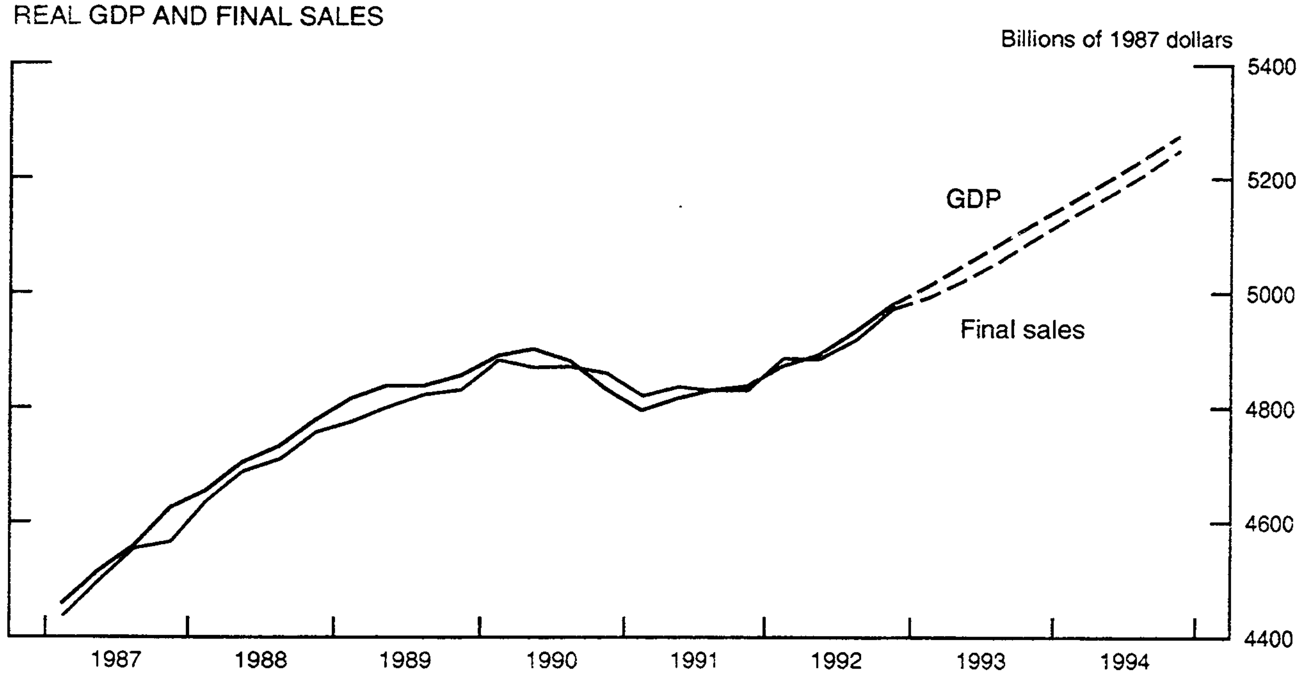
CPI INFLATION

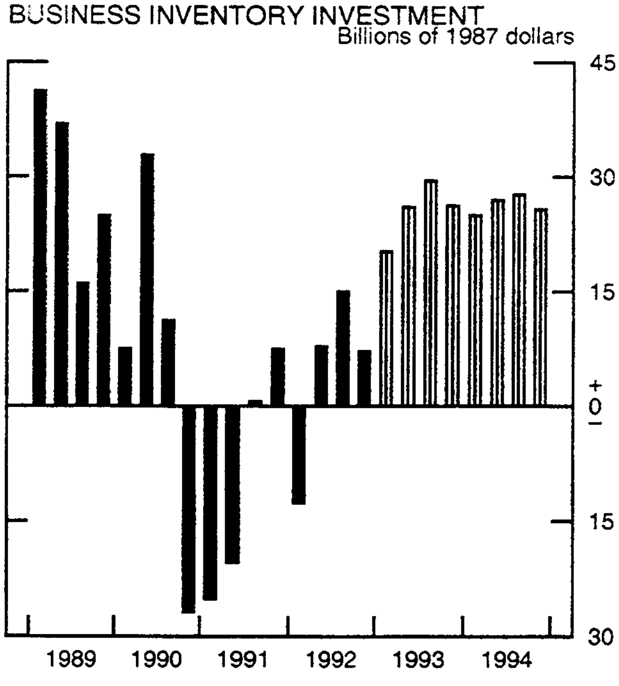
Percent change, Q4 to Q4	
1989	4.6
1990	6.3
1991	3.0
1992	3.0
1993	2.6
1994	2.4

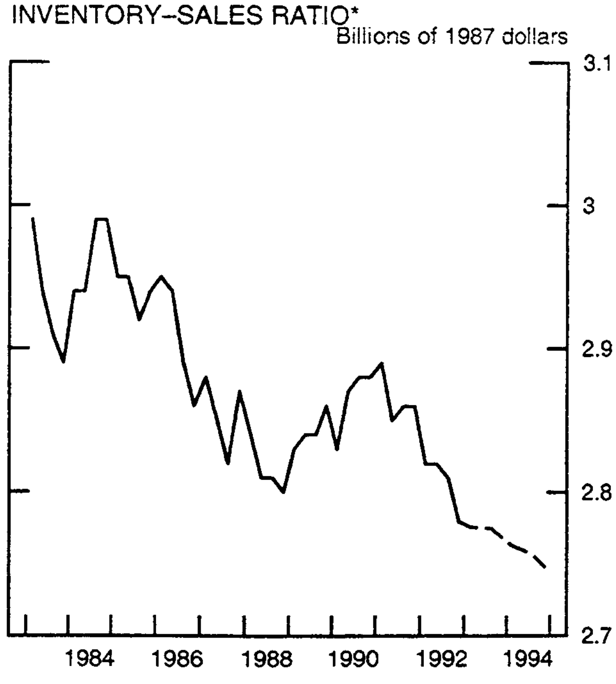
Note: "Consensus" forecast, Blue Chip Economic Indicators, January 10, 1993.

Chart 3

Inventories





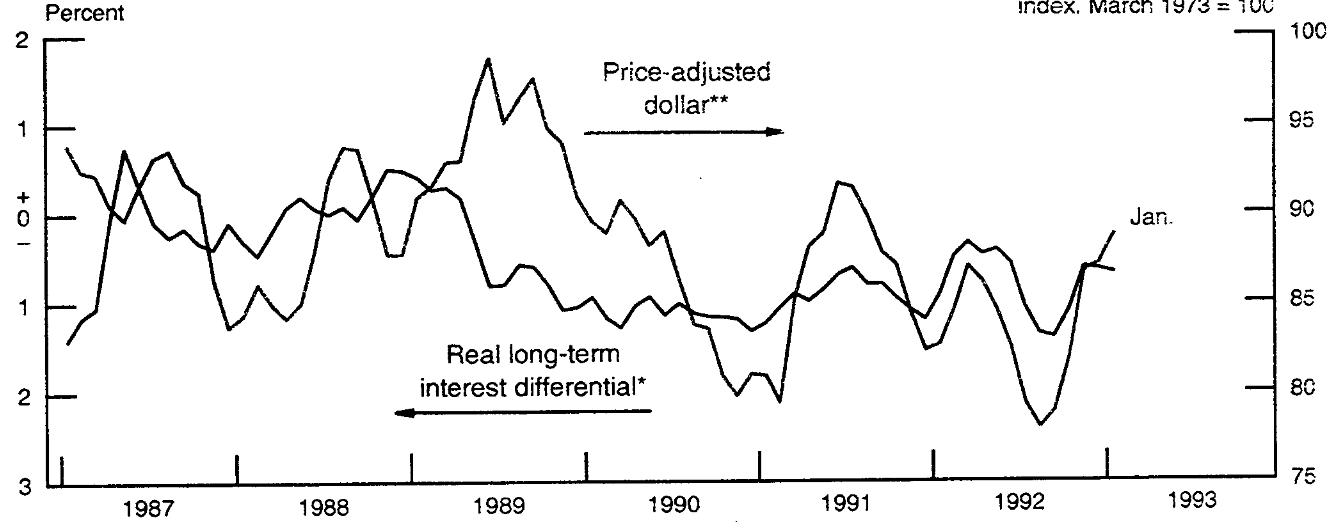


*Ratio of inventories to business final sales.

Chart 4

Exchange and Interest Rates

THE DOLLAR AND THE INTEREST DIFFERENTIAL



* Difference between rates on long-term U.S. government bonds and a weighted average foreign G-10 long-term government or public authority bond rates, adjusted for expected inflation.

** Weighted average against foreign-G10 countries, adjusted by relative prices.

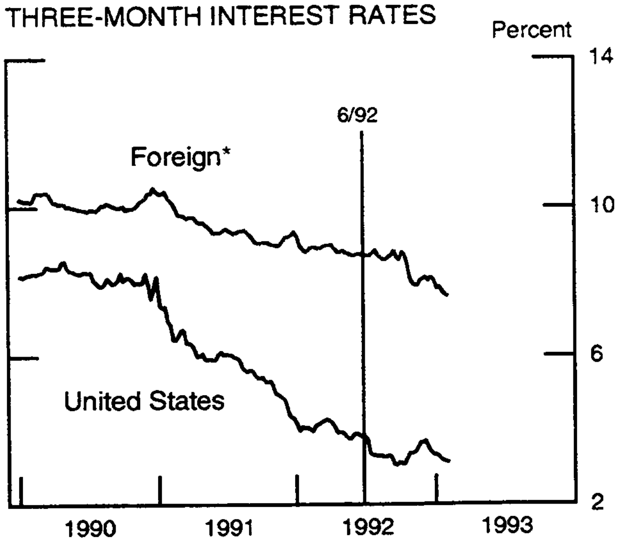
NOMINAL DOLLAR EXCHANGE RATES

	Percent change 6/92 to 2/1/93
Swedish Krona	32
Pound Sterling	28
Italian Lira	27
Canadian Dollar	6
Deutschemark	4
Yen	−1
G-10 Average	**9**

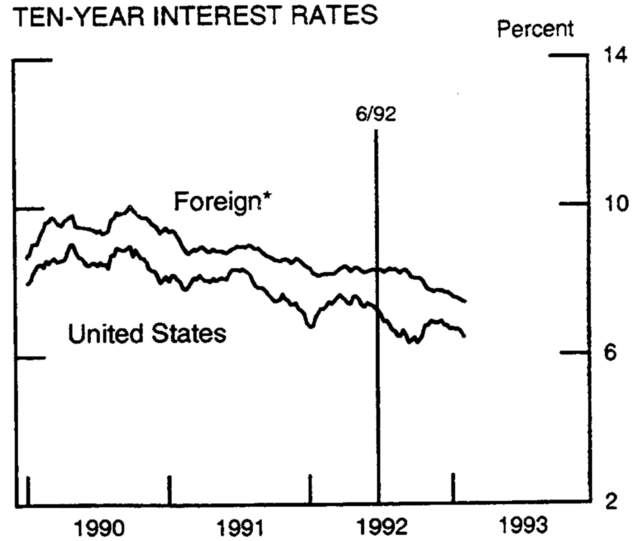
NOMINAL INTEREST RATES

	Percent: Level 2/1/93	Percent: Change 6/92 to 2/1/93
Three-month		
Germany	8.40	−1.26
Japan	3.43	−1.17
United States	3.14	−0.72
Ten-year		
Germany	7.05	−0.93
Japan	4.43	−1.11
United States	6.38	−0.88

THREE-MONTH INTEREST RATES



TEN-YEAR INTEREST RATES

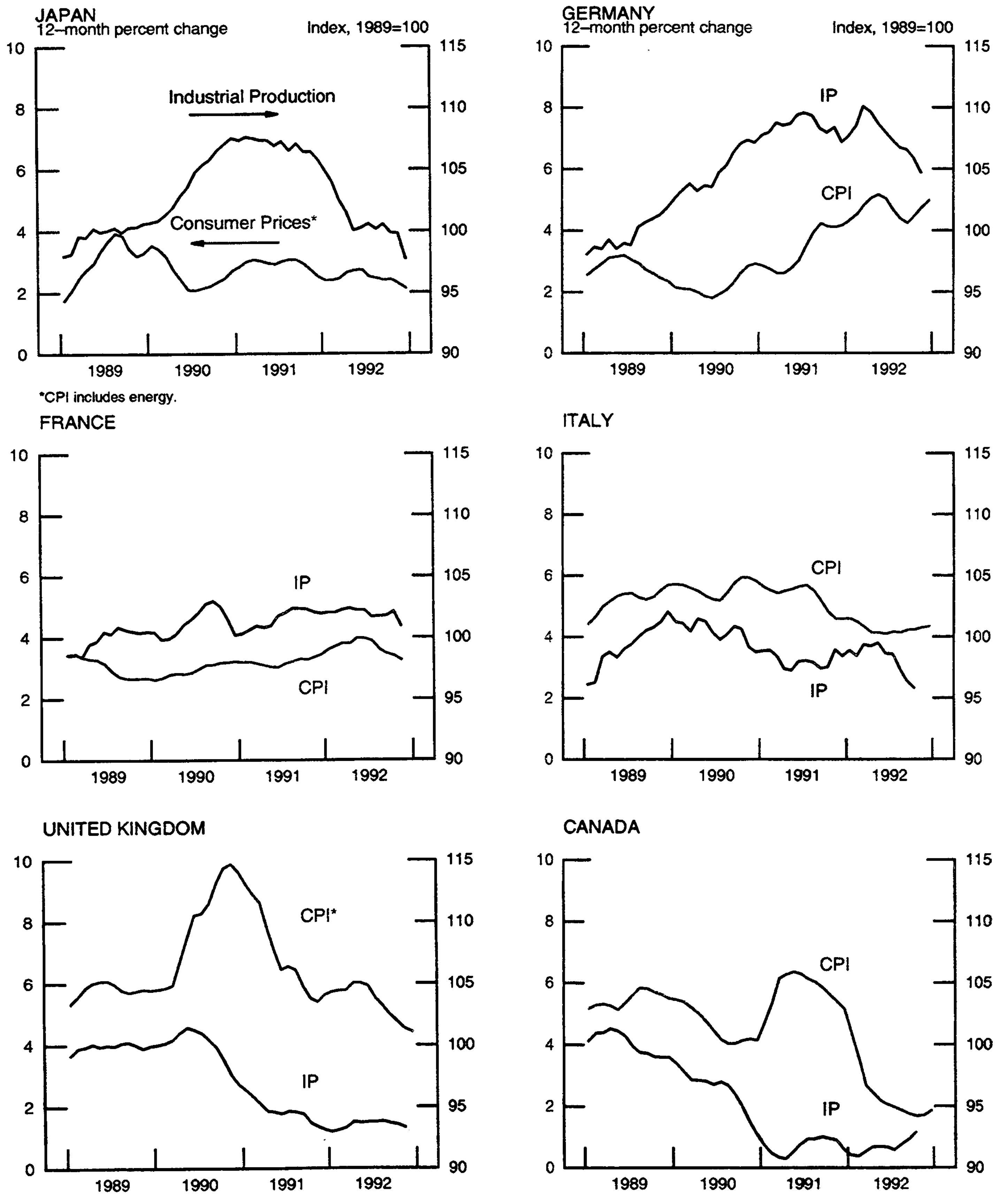


* Multilateral trade-weighted average for foreign G-10 countries

Chart 5

Industrial Production and Consumer Prices

Excluding food and energy prices, 3–month moving averages



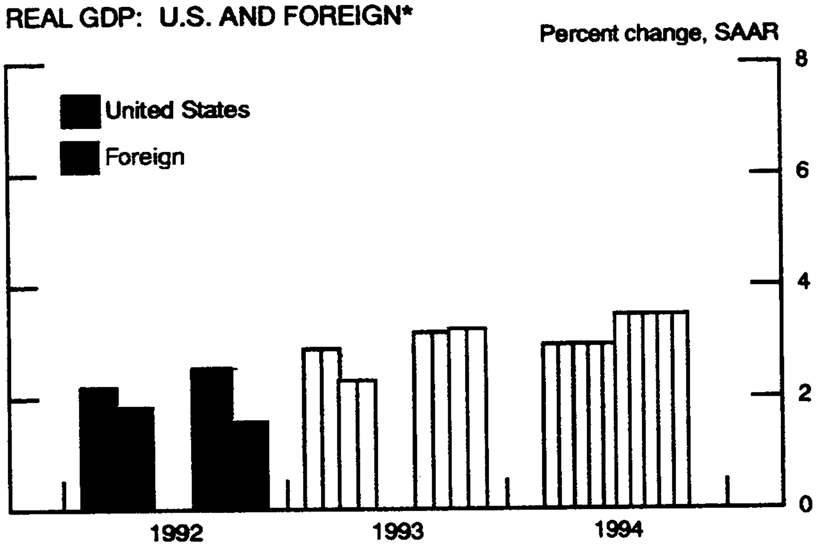
*CPI includes energy.

* CPI also excludes mortgage interest payments.

Chart 6

Foreign Outlook

REAL GDP: U.S. AND FOREIGN*

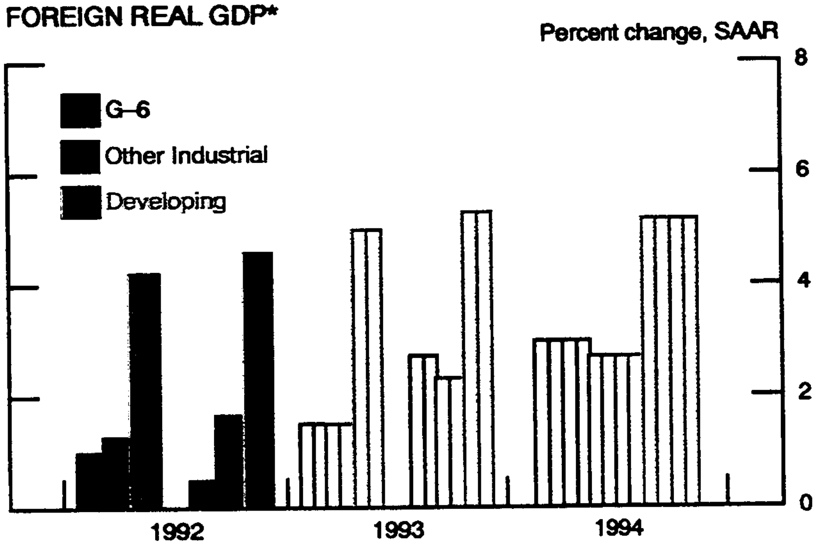


GDP: GROUP OF SIX

Percent change, SAAR

	1993 H1	1993 H2	1994
Japan	1.4	2.3	3.2
Canada	2.2	3.2	3.2
Germany	0.5	2.3	2.4
G-6	**1.5**	**2.7**	**3.0**

FOREIGN REAL GDP*

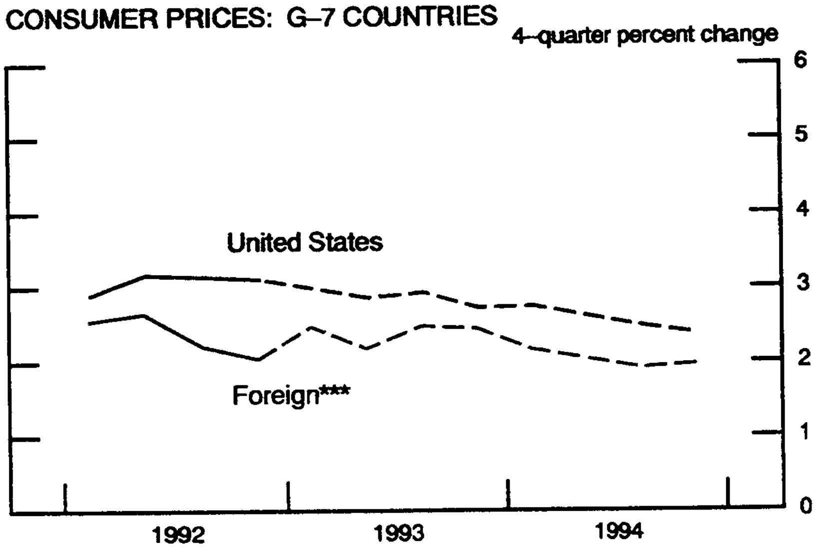


GDP: DEVELOPING COUNTRIES

Percent change

	1992	1993	1994
Mexico	2.8	3.0	3.5
NIEs**	5.5	6.1	6.8
China	11.5	9.8	8.7

CONSUMER PRICES: G-7 COUNTRIES



CONSUMER PRICES

Percent change, Q4 to Q4

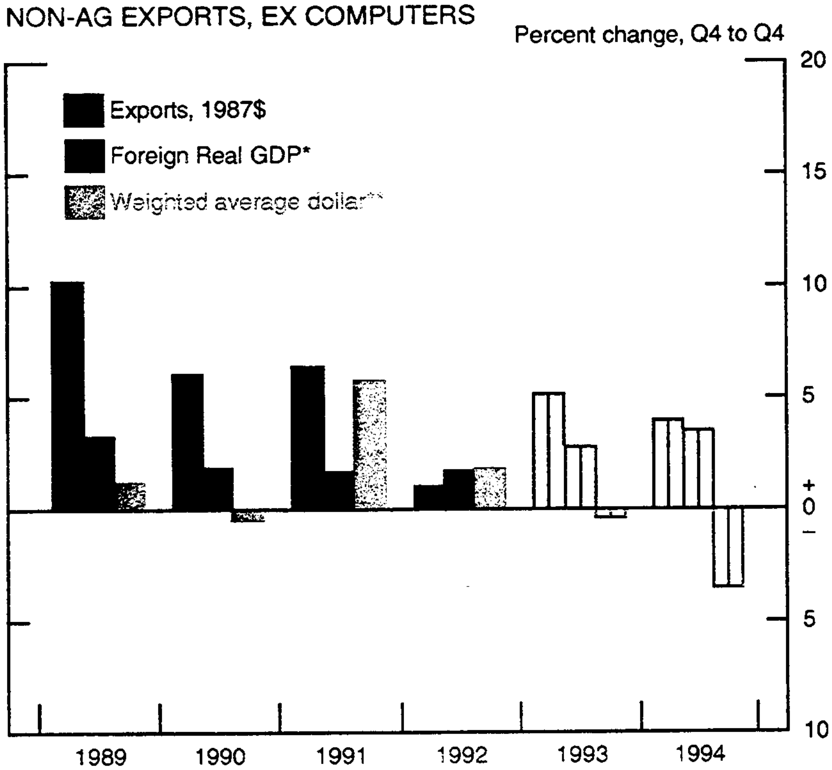
	1992	1993	1994
Germany	3.7	3.3	2.3
France	2.3	2.4	2.1
U.K.****	3.7	3.5	3.0
Japan	1.2	2.2	1.6
Canada	1.9	2.0	1.8
U.S.	3.0	2.6	2.4

*G-6 countries, 16 other industrial and 9 developing countries, U.S. nonagricultural export weights.
**Hong Kong, Singapore, South Korea, and Taiwan, U.S. nonagricultural export weights.
***G-6 countries, U.S. non-oil import weights.
****Excludes mortgage interest payments.

Chart 7

Major Trade Categories

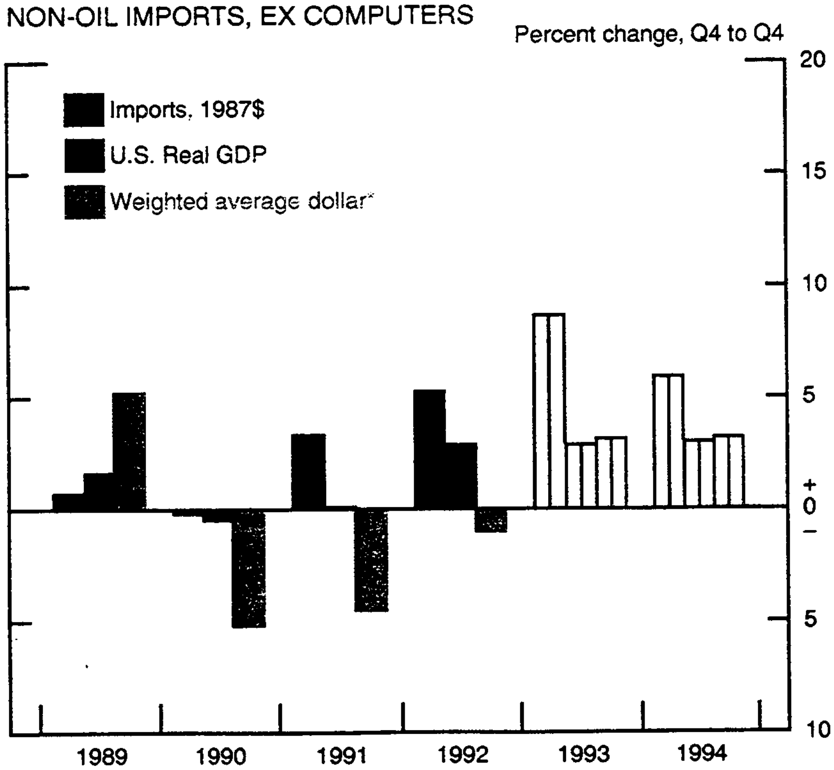
NON-AG EXPORTS, EX COMPUTERS



Billions of 1987 dollars, Q4, SAAR	
1989	288
1990	306
1991	325
1992	328
1993	345
1994	358

* G-6 countries, 16 other industrial countries and 9 developing countries, U.S. nonagricultural export weights.
** G-10 index (inverted), 6 quarter moving average.

NON-OIL IMPORTS, EX COMPUTERS



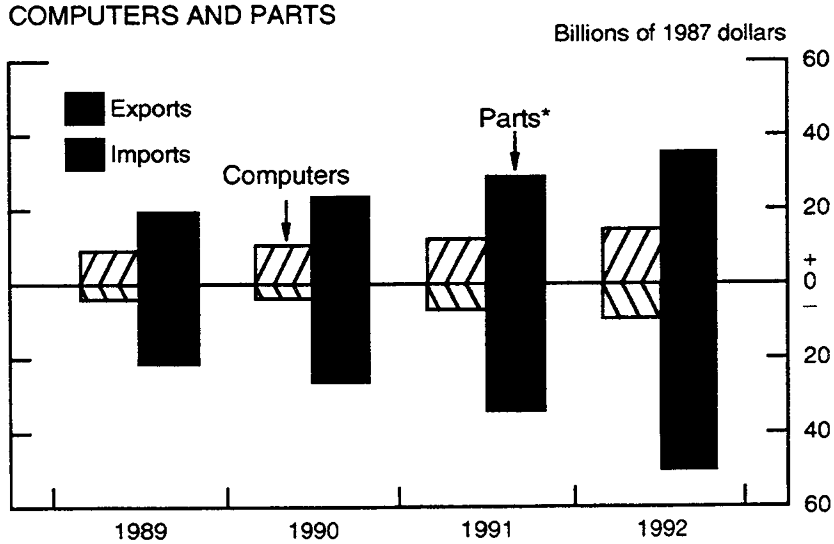
Billions of 1987 dollars, Q4, SAAR	
1989	378
1990	377
1991	390
1992	411
1993	446
1994	473

* G-10 index, 2 quarter moving average.

Chart 8

Selected Trade Categories

COMPUTERS AND PARTS



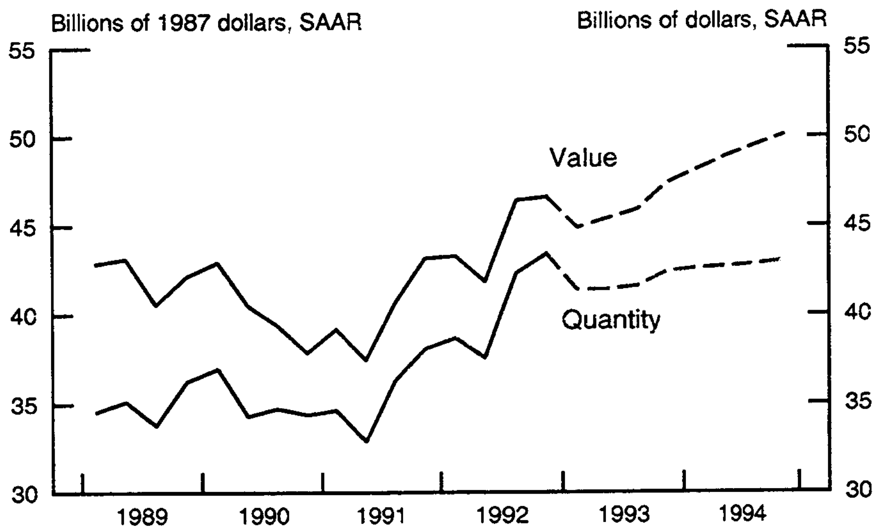
*Includes peripherals, accessories and parts.

TOTAL BALANCE

Computers and Parts
Billions of 1987 dollars

1989	3
1990	4
1991	0
1992	–10
1993	–18
1994	–19

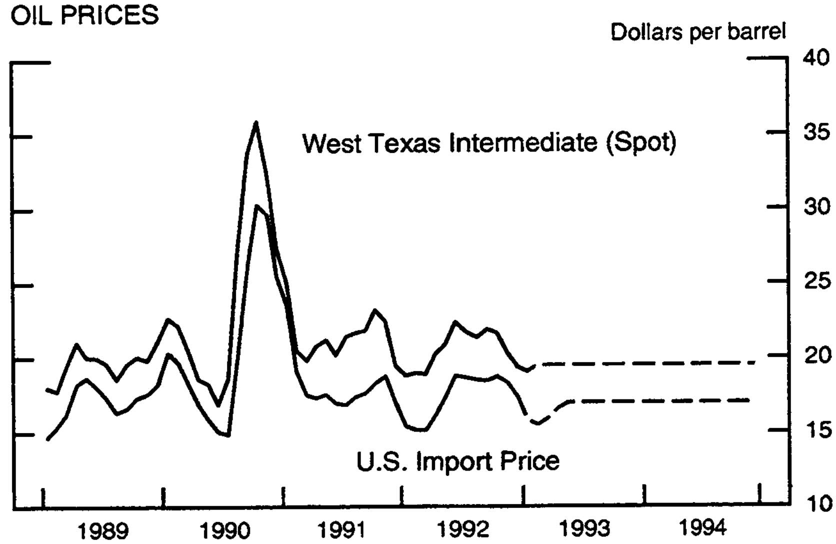
AGRICULTURAL EXPORTS



Percent change

	Value	1987$
1992	11	14
1993	3	3
1994	7	3

OIL PRICES



OIL IMPORTS

	MBD	Value (bil.$)
1989	8.2	51
1990	8.3	62
1991	7.7	51
1992	8.1	52
1993	8.9	54
1994	9.7	60

Chart 9

Summary for the External Sector

EXTERNAL BALANCES

Billions of dollars, except as noted, SAAR

	Fourth quarter			Change
	1992	1993	1994	'92 to '94
1. Current account balance	-79	-93	-108	-28
2. Goods	-106	-125	-143	-37
3. Services	54	59	66	12
4. Investment income	7	7	4	-3
5. Real net exports of goods and services, NIPA	-55	-81	-95	-40

ALTERNATIVE SCENARIO

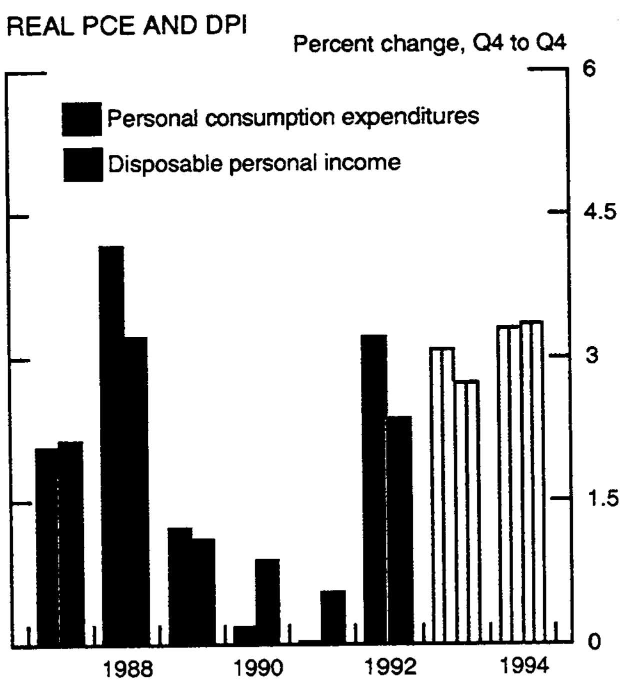
Baseline: Greenbook forecast extended through 1995.

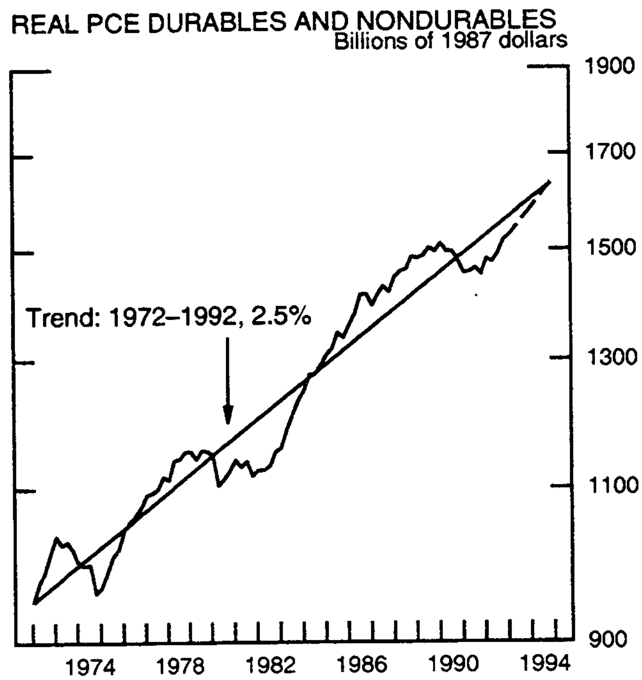
Stronger dollar: Dollar appreciates against other G-10 currencies by 10 percent over the first half of 1993 relative to baseline and remains at higher level; federal funds rate unchanged from baseline.

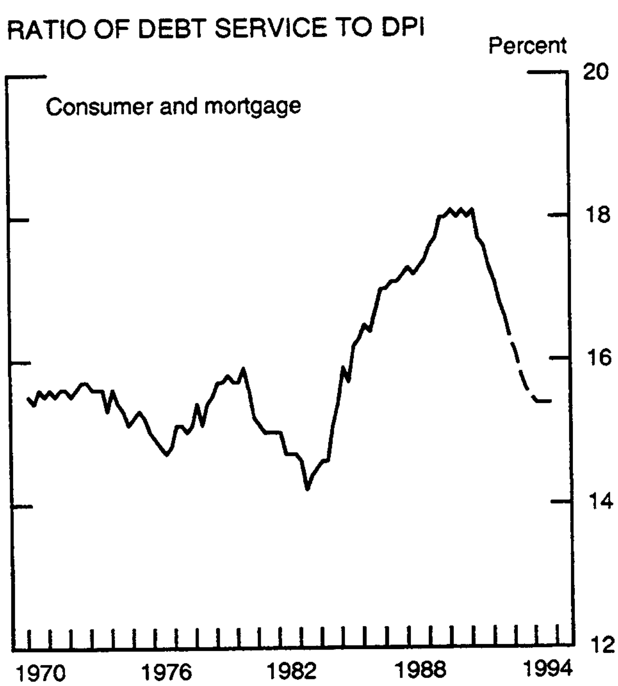
	1993	1994	1995
Percent change, Q4 to Q4			
Real GDP, U.S.			
Baseline	2.8	3.0	2.8
Stronger dollar	2.2	1.9	1.8
Consumer prices, U.S.			
Baseline	2.6	2.4	2.3
Stronger dollar	1.9	1.8	1.2

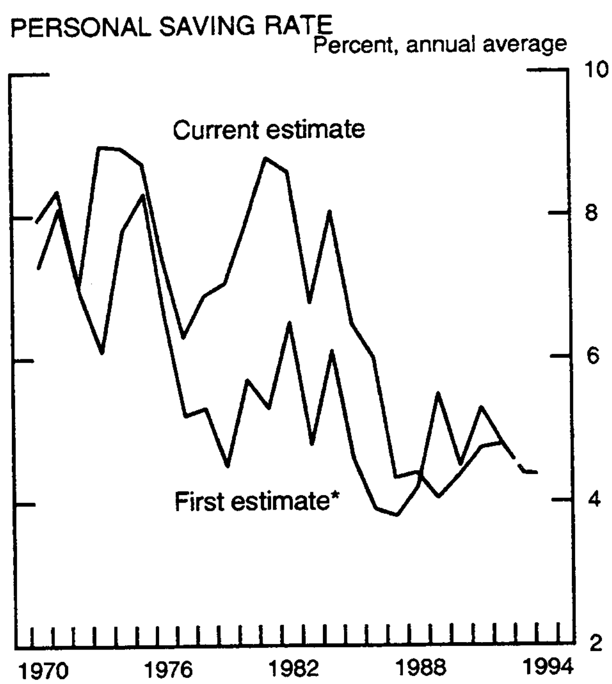
Chart 10

Consumer Sector







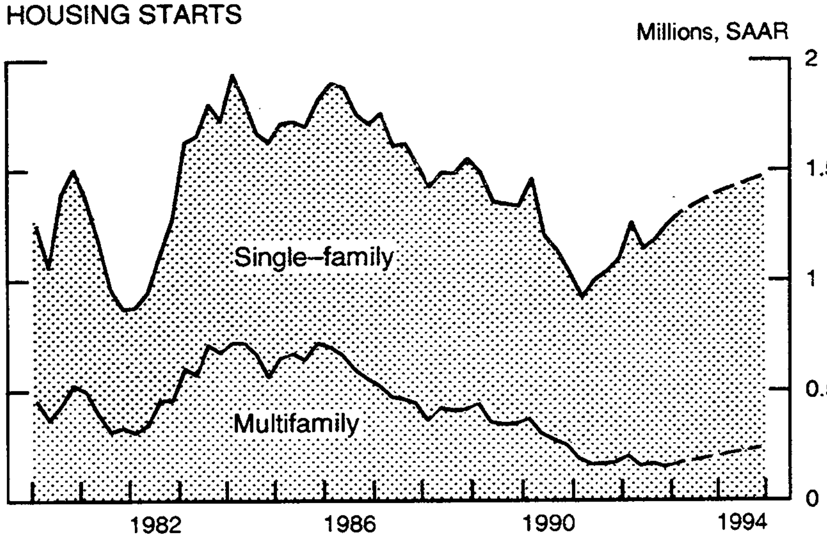


*First published annual estimate; published in January of the next year.

Chart 11

Housing

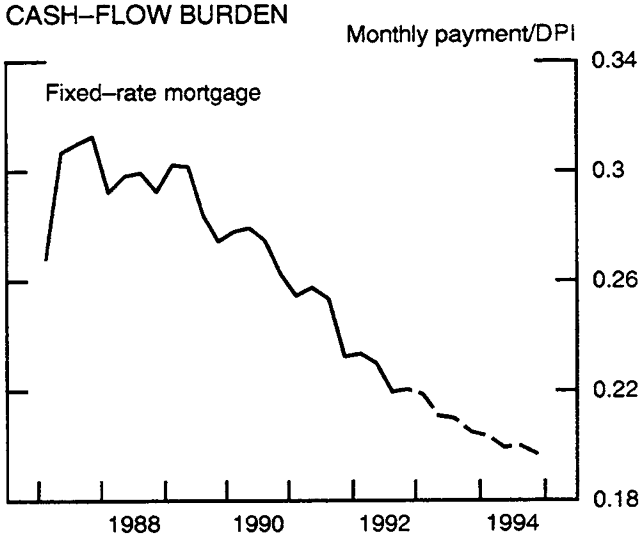
HOUSING STARTS



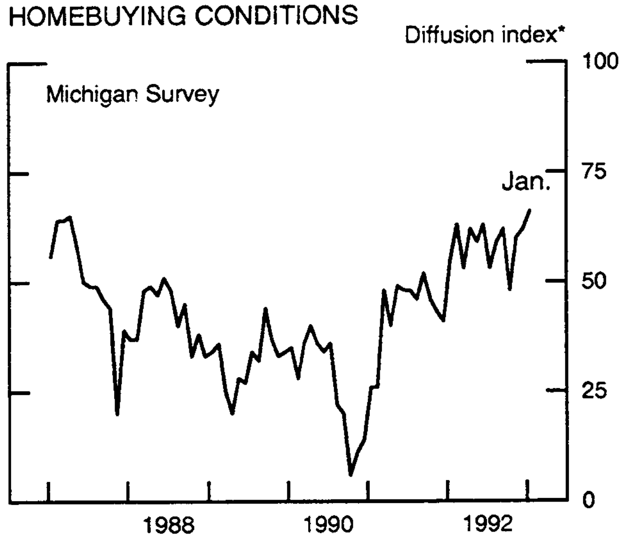
TOTAL STARTS

	Millions
1989	1.38
1990	1.21
1991	1.02
1992	1.21
1993	1.35
1994	1.44

CASH–FLOW BURDEN

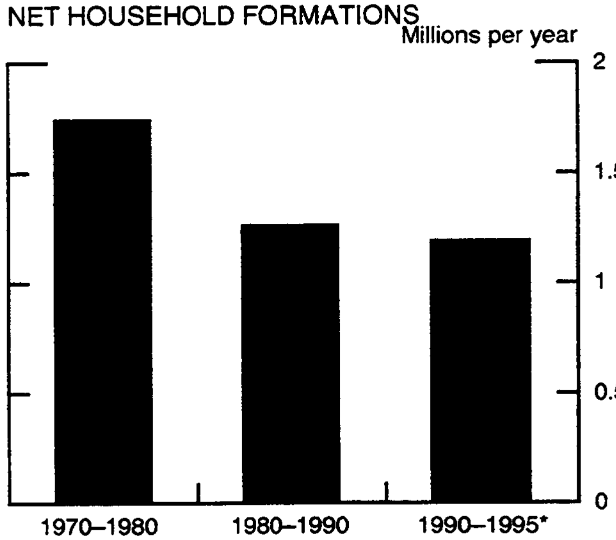


HOMEBUYING CONDITIONS



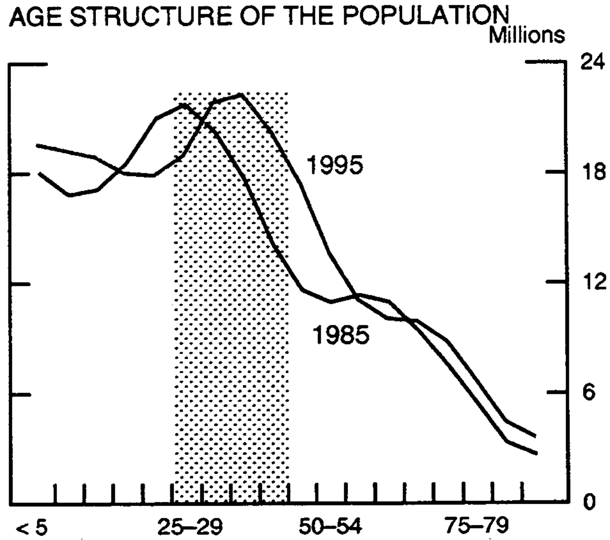
*Percent responding "good" less percent "bad."

NET HOUSEHOLD FORMATIONS



*Staff estimate, based on Census Bureau population projections.

AGE STRUCTURE OF THE POPULATION



Note: Shaded area denotes the prime homebuying age group, 25 to 44 years.

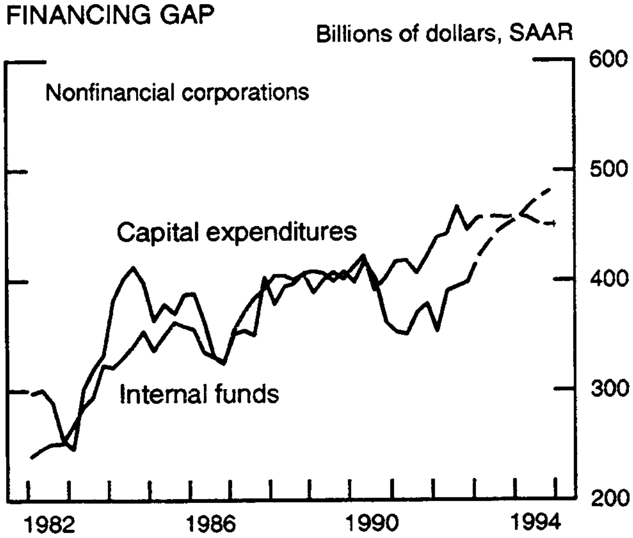
Chart 12

Business Sector

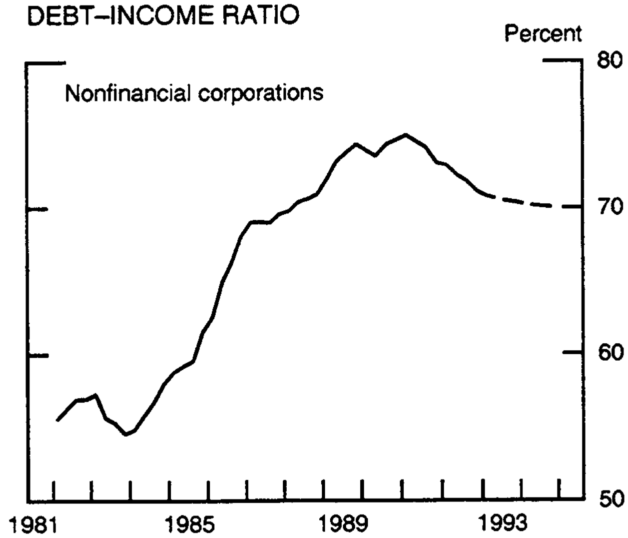
REAL BUSINESS FIXED INVESTMENT

	Percent change, Q4 to Q4			
	1991	1992	1993	1994
1. Producers' durable equipment	–3.5	11.9	11	9
2. Computers	22.2	35.8	28	17
3. Commercial aircraft	–21.8	12.4	–5	–17
4. Other	–7.3	6.3	6	8
5. Nonresidential structures	–14.3	–1.4	2	3

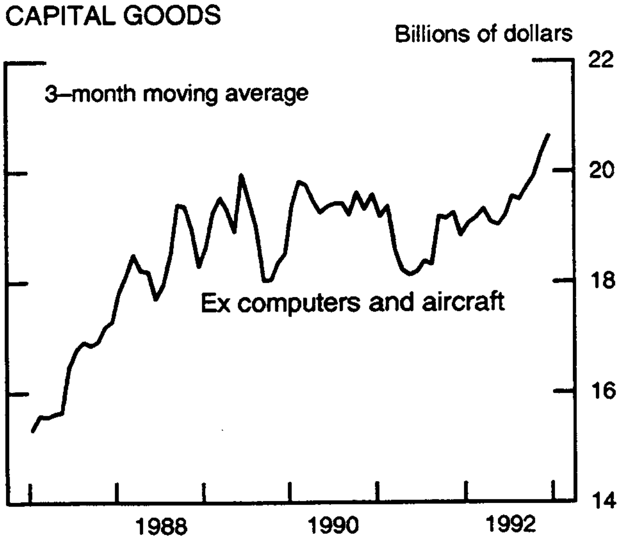
FINANCING GAP



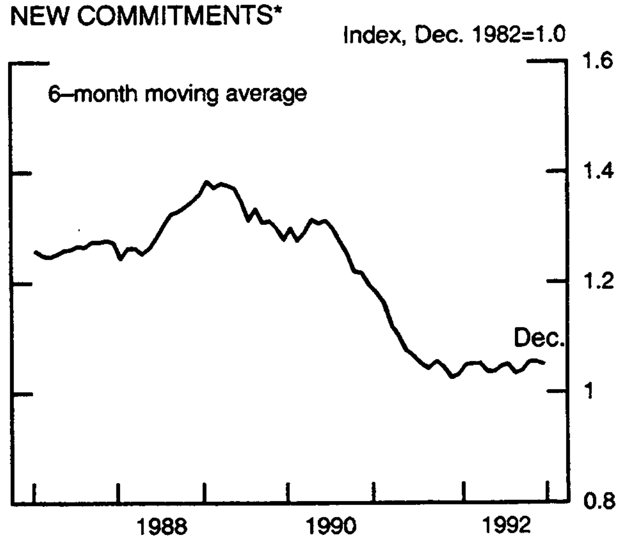
DEBT–INCOME RATIO



ORDERS FOR NONDEFENSE CAPITAL GOODS



NONRESIDENTIAL CONSTRUCTION NEW COMMITMENTS*

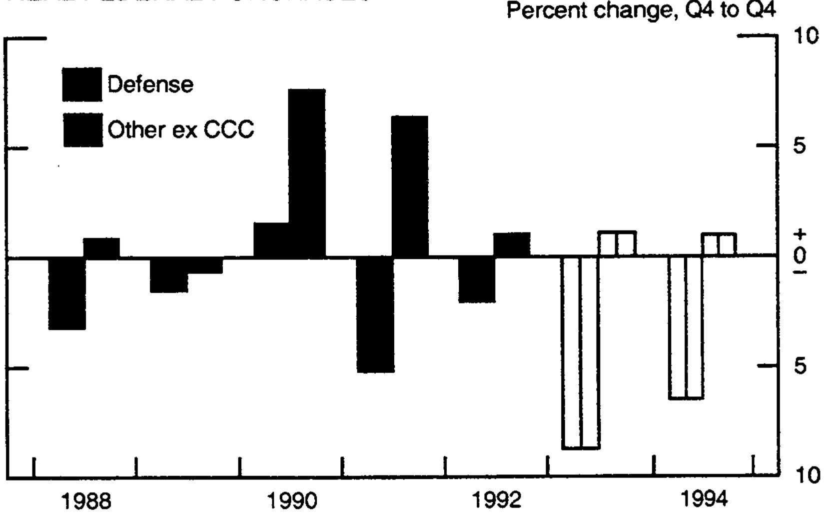


*New commitments are the sum of permits and contracts.

Chart 13

Government Sector

REAL FEDERAL PURCHASES

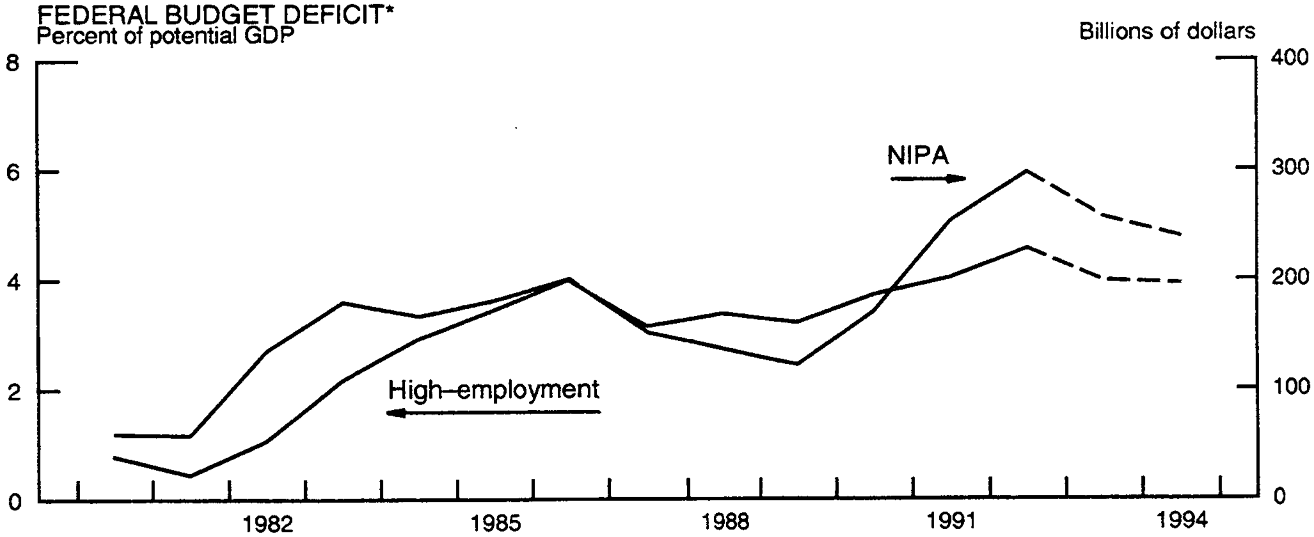


TOTAL PURCHASES

Percent change, Q4 to Q4

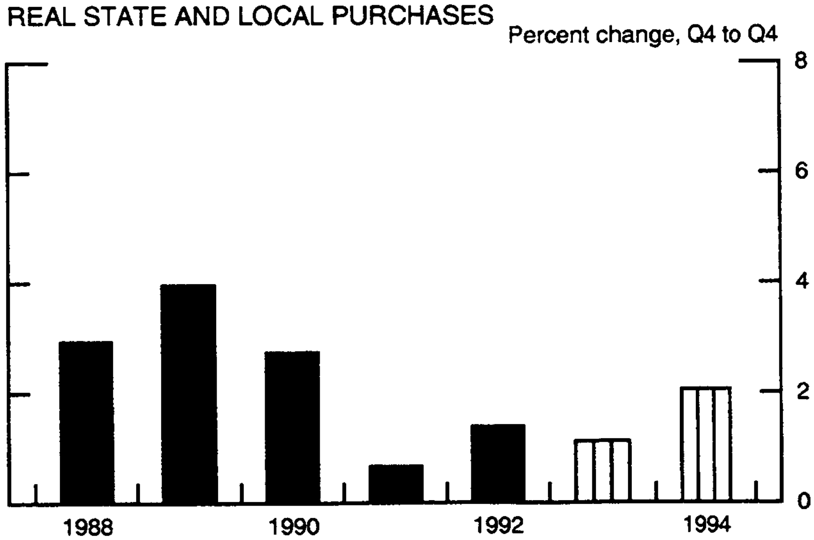
1989	-.6
1990	3.0
1991	-2.3
1992	-.5
1993	-5.8
1994	-4.1

FEDERAL BUDGET DEFICIT*



*Excluding Desert Storm contributions.

REAL STATE AND LOCAL PURCHASES



OPERATING DEFICIT

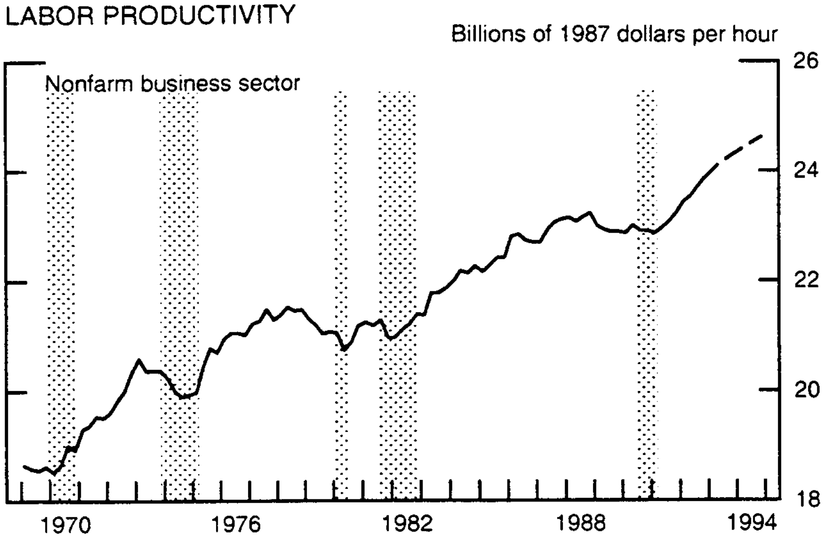
Billions of dollars, SAAR

1989	41
1990	46
1991	36
1992	23
1993	17
1994	10

Chart 14

Labor Market

LABOR PRODUCTIVITY

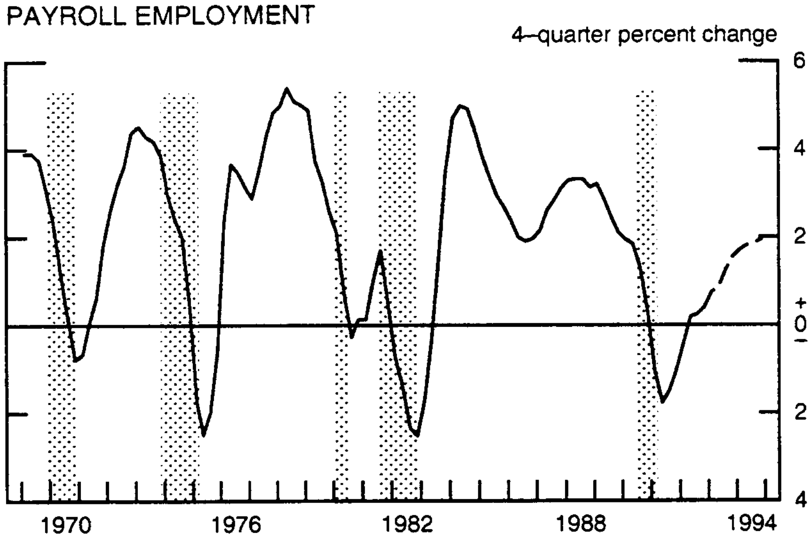


PRODUCTIVITY GROWTH

Percent change, Q4 to Q4

1989	−1.4
1990	.1
1991	1.3
1992	3.0
1993	1.8
1994	1.3

PAYROLL EMPLOYMENT

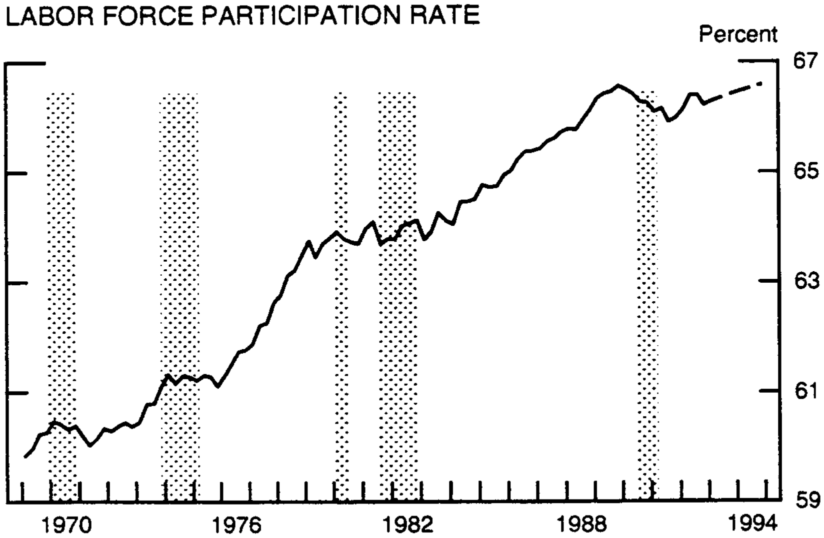


PAYROLL GROWTH

Percent change, Q4 to Q4

1989	2.1
1990	.3
1991	−1.0
1992	.4
1993	1.6
1994	2.0

LABOR FORCE PARTICIPATION RATE



LABOR FORCE GROWTH

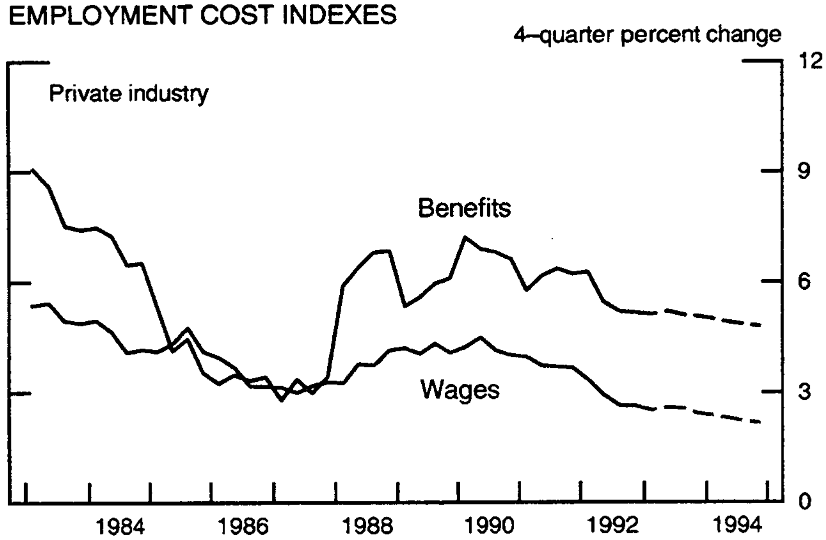
Percent change, Q4 to Q4

1989	1.6
1990	.4
1991	.5
1992	1.3
1993	1.3
1994	1.2

Chart 15

Wages and Prices

EMPLOYMENT COST INDEXES

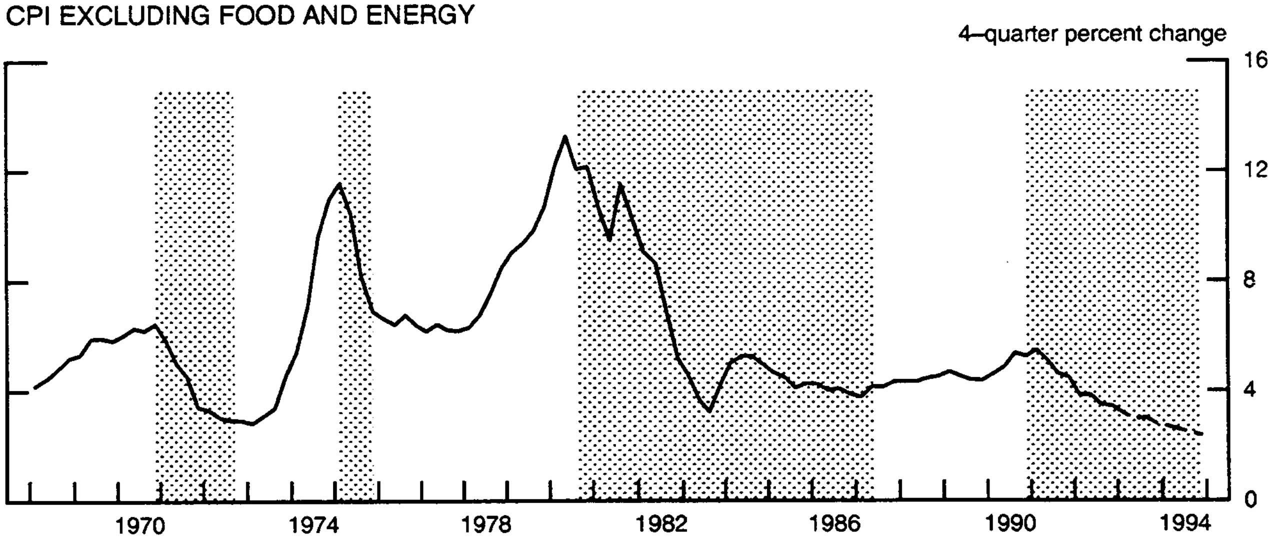


TOTAL COMPENSATION

Percent change, Q4 to Q4

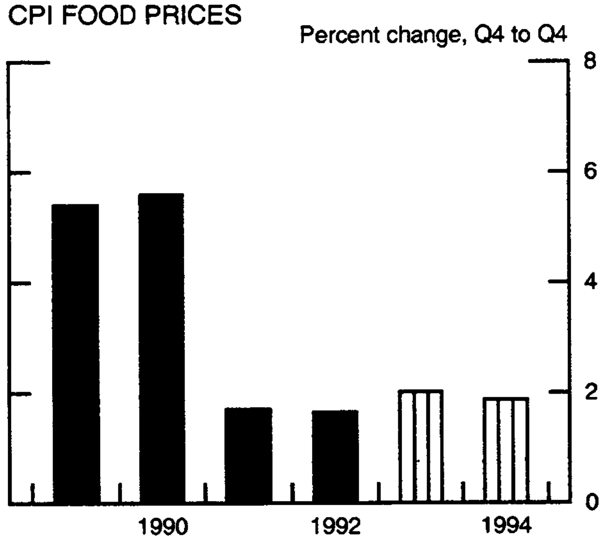
1989	4.8
1990	4.6
1991	4.4
1992	3.5
1993	3.2
1994	2.9

CPI EXCLUDING FOOD AND ENERGY

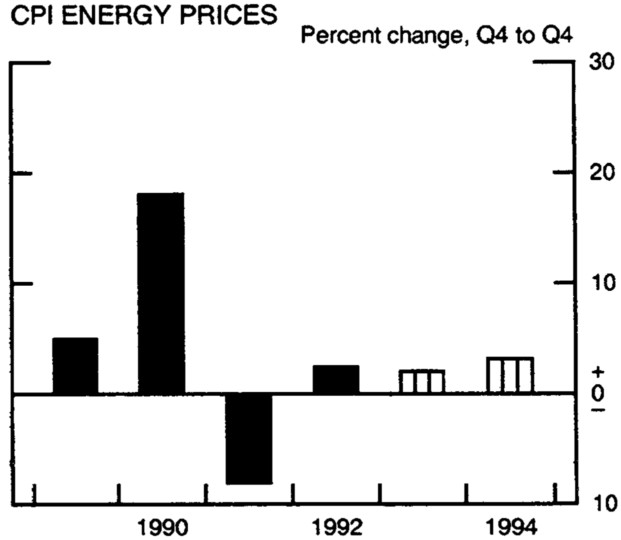


Note: Shading indicates periods when unemployment rate exceeds NAIRU.

CPI FOOD PRICES



CPI ENERGY PRICES



Economic Projections for 1993

	FOMC Range	FOMC Central Tendency	Administration (Bush CEA)	Board Staff
	Percent change, Q4 to Q4			
Nominal GDP	$5^1/_4$ to $6^1/_4$	$5^1/_2$ to 6	5.6	5.4
previous estimate	*$4^1/_2$ to 7*	*$5^1/_2$ to $6^1/_4$*		*5.8*
Real GDP	$2^1/_2$ to $3^3/_4$	3 to $3^1/_2$	2.9	2.8
previous estimate	*$2^1/_2$ to $3^1/_2$*	*$2^3/_4$ to 3*		*3.0*
CPI	$2^1/_2$ to 3	$2^1/_2$ to $2^3/_4$	2.8	2.6
previous estimate	*$2^1/_2$ to 4*	*$2^3/_4$ to $3^1/_4$*		*3.1*
	Average level, Q4, percent			
Unemployment rate	$6^3/_4$ to 7	$6^3/_4$ to 7	6.6	7.0
previous estimate	*$6^1/_2$ to $7^1/_4$*	*$6^1/_2$ to 7*		*6.7*

NOTE: Central tendencies constructed by dropping top and bottom three from distribution, and rounding to nearest quarter percent. Previous estimates are from July 1992.